

Report of Independent Auditor

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
(A Component Unit of the State of Delaware)  
Georgetown, Delaware

Years Ended June 30, 2005 and 2004

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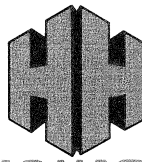
**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
(A Component Unit of the State of Delaware)

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**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

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### **Report of Independent Auditor**

To the School Board Members  
**Sussex Academy of Arts and Sciences**  
Georgetown, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences, Georgetown, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences as of June 30, 2005 and 2004, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 7 and page 25, respectively, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Sussex Academy of Arts and Sciences' basic financial statements. The additional information on pages 26 and 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 26 and 27 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

August 15, 2005  
Wilmington, Delaware

**Management's Discussion  
and Analysis Section**

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

Our discussion and analysis of the School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2005. Please read it in conjunction with the Report of Independent Auditor on pages 1 and 2, and the School's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

The net assets of the School increased by \$253,800 or 103.06%. Program revenues accounted for \$216,204 or 8.25% of total revenues, and the general revenues accounted for \$2.4 million or 91.75% of total revenues. Also, the general fund reported a positive fund balance of \$405,016.

**USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

**REPORTING THE SCHOOL AS A WHOLE**

***The Statement of Net Assets and Statement of Activities***

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

***Fund Financial Statements***

Our analysis of the School's major funds and fund financial statements begins on page 11 and provides detailed information about the most significant funds-not the School as a whole. Certain funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

***Governmental Funds***

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS** (continued)

***Fiduciary Funds***

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can only be used for the student activities. All of the School's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School's other financial statements since these assets cannot be utilized by the School to finance its operations.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$500,058 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (81.88%) and capital assets net of depreciation (18.12%). The School uses capital assets to provide services; consequently, capital assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these debt obligations.

A summarized comparative analysis of fiscal year 2005 to 2004 follows:

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Current and other assets</b>		
Current and other assets	\$ 575,423	\$ 280,982
Capital assets, net of depreciation	127,329	164,066
<b>Total assets</b>	<u>702,752</u>	<u>445,048</u>
<b>Liabilities</b>		
Current liabilities	178,585	168,121
Long-term liabilities	24,109	30,669
<b>Total liabilities</b>	<u>202,694</u>	<u>198,790</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	101,168	130,186
Unrestricted	<u>398,890</u>	<u>116,072</u>
<b>Total net assets</b>	<u>\$ 500,058</u>	<u>\$ 246,258</u>

The School may use the balance of \$398,890 of unrestricted net assets, reflected above in Table 1, to meet future operating activities.

The School is pleased to report positive balances in net assets, both for the government as a whole, and as well as its separate governmental type activities.

The following (Table 2) reflects the School's revenue sources by funding source and the expenses by functions, which indicate how the funding received was used.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

**Table 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Charges to school districts	\$ 471,264	\$ 399,298
State aid not restricted to specific purposes	1,923,096	1,616,547
Earnings on cash and equivalents	10,397	6,490
<b>Total general revenues</b>	<b>2,404,757</b>	<b>2,022,335</b>
Program revenues:		
Federal aid	136,415	109,251
School food services	39,842	38,561
Contributions	39,947	104,596
<b>Total revenues</b>	<b>2,620,961</b>	<b>2,274,743</b>
<b>Expenses</b>		
Instructional services	1,870,407	1,736,608
Supporting services:		
Operation and maintenance of facilities	227,208	209,459
Transportation	190,583	159,881
School food services	40,464	44,337
Depreciation-unallocated	36,737	45,994
Interest on capital lease obligations	1,762	3,388
<b>Total expenses</b>	<b>2,367,161</b>	<b>2,199,667</b>
<b>Change in net assets</b>	<b>\$ 253,800</b>	<b>\$ 75,076</b>

**Governmental Activities**

Net assets of the School's governmental activities increased by \$253,800 and unrestricted net assets reflect a positive balance of \$398,890. The increase in net assets is primarily the result of the School's increase in revenues while at the same time showing its ability to control expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues which include charges to School Districts, State entitlements, and cash and investment earnings must support the net cost of the School's programs.

	<u>Services</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
<b>Governmental activities</b>				
Instructional services	\$1,870,407	\$1,694,045	\$1,736,608	\$1,522,761
Supporting services:				
Operation and maintenance of facilities	227,208	227,208	209,459	209,459
Transportation	190,583	190,583	159,881	159,881
School food services	40,464	622	44,337	5,776
Depreciation-unallocated	36,737	36,737	45,994	45,994
Interest on capital lease obligations	1,762	1,762	3,388	3,388
<b>Total expenses</b>	<b>\$2,367,161</b>	<b>\$2,150,957</b>	<b>\$2,199,667</b>	<b>\$1,947,259</b>

The reliance on general revenues to support governmental activities is indicated by the net cost services' columns which reflect the need for general support.



**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**THE SCHOOL'S FUNDS**

The School's governmental funds (as presented on the balance sheet on page 11) reported a combined fund balance of \$405,016, which is more than last year's total of \$120,579. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<b>General fund</b>	<u>\$ 405,016</u>	<u>\$ 120,579</u>	<u>\$ 284,437</u>

**General Fund**

The School's general fund increase in fund balance is due to increased funding at all levels and increased efforts by the School to tap into private sources. The tables that follow assist in illustrating the financial activities.

	<u>Amounts</u>		<u>Percentage (%) Change</u>
	<u>2005</u>	<u>2004</u>	
<b>Revenues</b>			
Charges to school districts	\$ 471,264	\$ 399,298	18.02
State aid	1,923,096	1,616,547	18.96
Federal aid	136,415	109,251	24.86
Earnings on cash and equivalents	10,397	6,490	60.20
School food services	39,842	38,561	3.32
Contributions-private sources	39,947	...	100.00
Contributions-capital assets	...	104,596	(100.00)
<b>Total revenues</b>	<u>\$2,620,961</u>	<u>\$2,274,743</u>	<u>15.22</u>

The largest portions of general fund expenditures are for personnel costs (salaries and related employment costs). The School is a service entity and as such is labor intensive.

	<u>Amounts</u>		<u>Percentage (%) Change</u>
	<u>2005</u>	<u>2004</u>	
<b>Expenditures by object</b>			
Personnel costs	\$1,511,615	\$1,413,524	6.94
Contracted services	156,163	211,373	(26.12)
Insurance	18,721	24,295	(22.94)
Transportation-buses	190,583	159,881	19.20
Land/Building/Facilities	228,927	214,283	6.83
Repairs and maintenance	5,198	4,879	6.54
Supplies and materials	142,743	100,573	41.93
Computer/Word Processing/Software	64,139	20,864	207.42
Capital outlay-purchased	8,954	34,040	(73.70)
Capital outlay-contributed	...	104,596	(100.00)
Debt service	9,481	20,590	(53.95)
<b>Total expenditures by object</b>	<u>\$2,336,524</u>	<u>\$2,308,898</u>	<u>1.20</u>

Revenues exceeded expenditures for the current year resulting in an increase to the School's fund balance. Even though individual expenditure line items show various percentage changes, which is a result of changing student demographics and School needs, in total the increase in expenditures was only 1.20%, versus an increase in revenues of 15.22%.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS-UNAUDITED  
Year Ended June 30, 2005

**GENERAL FUND BUDGET INFORMATION**

The most significant budgeted fund is the general fund which is presented on the modified accrual basis of accounting. The School amended its revenue estimates to reflect projected increases in its revenue stream. The final budget increased revenues by \$114,667 over the original budgeted amounts; respectively, the projected expenditures were also increased by \$134,667. These changes were predominantly a result of enrollment changes: 318 (2005) versus 307 (2004).

**CAPITAL ASSETS**

The School has \$127,329 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. During the current year, there were no acquisitions for governmental activities and depreciation expense was \$36,737. Detailed information regarding the capital assets activity is included in note 3 of the financial statements.

**DEBT OBLIGATIONS**

At June 30, 2005, the School had \$26,161 in capital leasing obligations. The School paid \$7,719 in principal during the current year. Detailed information regarding debt obligation activity is included in notes 5 and 6 of the financial statements.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

Now in its sixth year of operation, the School's student population and revenue is stable. Since the School has no direct taxing authority, it is reliant upon the state and local revenues that are passed through to the School. In order to maintain a school that thrives on innovation and quality, the School will continue to seek other sources of revenue. Additionally, the recent natural disasters may thrust the School into spending more of its funding on energy and transportation as was the case during fiscal year 2005.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the funding received. If you have questions about this report or need additional financial information, contact the School's Finance Office at (302) 856-3636.

## **Basic Financial Statements Section**

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
**STATEMENTS OF NET ASSETS**  
June 30, 2005 and 2004

	<u>Governmental Activities</u>	
<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 575,423	\$ 278,204
Prepaid expenses	<u>...</u>	<u>2,778</u>
<b>Total current assets</b>	<u>575,423</u>	<u>280,982</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net of depreciation	<u>127,329</u>	<u>164,066</u>
<b>TOTAL ASSETS</b>	<u>702,752</u>	<u>445,048</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accrued salaries and related costs	170,407	160,403
Capital lease obligations, due within one year	<u>8,178</u>	<u>7,718</u>
<b>Total current liabilities</b>	<u>178,585</u>	<u>168,121</u>
<b>NONCURRENT LIABILITIES</b>		
Capital lease obligations due or payable after one year	17,983	26,162
Compensated absences liability	<u>6,126</u>	<u>4,507</u>
<b>TOTAL LIABILITIES</b>	<u>202,694</u>	<u>198,790</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	101,168	130,186
Unrestricted	<u>398,890</u>	<u>116,072</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 500,058</u>	<u>\$ 246,258</u>

The accompanying notes are an integral  
part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 1,870,407	\$ ...	\$ 136,415	\$ 39,947	\$ (1,694,045)
Supporting services:					
Operation and maintenance of facilities	227,208	...	...	...	(227,208)
Transportation	190,583	...	...	...	(190,583)
School food services	40,464	39,842	...	...	(622)
Depreciation-unallocated	36,737	...	...	...	(36,737)
Interest on capital lease obligations	<u>1,762</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(1,762)</u>
<b>Total Charter School</b>	<u>\$ 2,367,161</u>	<u>\$ 39,842</u>	<u>\$ 136,415</u>	<u>\$ 39,947</u>	<u>(2,150,957)</u>
<b>GENERAL REVENUES</b>					
Charges to school districts					471,264
State aid not restricted to specific purposes					1,923,096
Earnings on cash and equivalents					<u>10,397</u>
<b>Total general revenues</b>					<u>2,404,757</u>
<b>CHANGE IN NET ASSETS</b>					253,800
<b>NET ASSETS</b>					
Beginning of year					<u>246,258</u>
End of year					<u>\$ 500,058</u>

The accompanying notes are an integral part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 1,736,608	\$ ...	\$ 109,251	\$ 104,596	\$ (1,522,761)
Supporting services:					
Operation and maintenance of facilities	209,459	...	...	...	(209,459)
Transportation	159,881	...	...	...	(159,881)
School food services	44,337	38,561	...	...	(5,776)
Depreciation-unallocated	45,994	...	...	...	(45,994)
Interest on capital lease obligations	3,388	...	...	...	(3,388)
<b>Total Charter School</b>	<b>\$ 2,199,667</b>	<b>\$ 38,561</b>	<b>\$ 109,251</b>	<b>\$ 104,596</b>	<b>(1,947,259)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					399,298
State aid not restricted to specific purposes					1,616,547
Earnings on cash and equivalents					6,490
<b>Total general revenues</b>					<b>2,022,335</b>
<b>CHANGE IN NET ASSETS</b>					<b>75,076</b>
<b>NET ASSETS</b>					
Beginning of year					171,182
End of year					<b>\$ 246,258</b>

The accompanying notes are an integral part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2005 and 2004

	<u>Governmental Funds</u>	
	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 575,423	\$ 278,204
Prepaid expenses	<u>    ...</u>	<u>    2,778</u>
<b>TOTAL ASSETS</b>	<u>\$ 575,423</u>	<u>\$ 280,982</u>
<b>LIABILITIES</b>		
Accrued salaries and related costs	\$ 170,407	\$ 160,403
<b>Total liabilities</b>	<u>170,407</u>	<u>160,403</u>
<b>FUND BALANCES</b>		
Reserved for encumbrances	166	166
Unreserved	<u>404,850</u>	<u>120,413</u>
<b>Total fund balances</b>	<u>405,016</u>	<u>120,579</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 575,423</u>	<u>\$ 280,982</u>

The accompanying notes are an integral  
part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**

## RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS

## TO THE STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	\$ 405,016	\$ 120,579
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$282,083 for 2005 and \$282,083 for 2004, and the related accumulated depreciation is \$154,754 for 2005 and \$118,017 for 2004.	127,329	164,066
Capital lease obligations are not due and payable in the current period and therefore are not reported in the funds.		
	<u>2005</u>	<u>2004</u>
Due within one year	\$ (8,178)	\$ (7,718)
Due in more than one year	<u>(17,983)</u>	<u>(26,162)</u>
	(26,161)	(33,880)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(6,126)</u>	<u>(4,507)</u>
<b>Total net assets-governmental activities</b>	<u>\$ 500,058</u>	<u>\$ 246,258</u>

The accompanying notes are an integral part of the basic financial statements



**SUSSEX ACADEMY OF ARTS AND SCIENCES**

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
 Years Ended June 30, 2005 and 2004

	<u>Governmental Funds</u>	
	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Charges to school districts	\$ 471,264	\$ 399,298
State aid	1,923,096	1,616,547
Federal aid	136,415	109,251
Earnings on cash and equivalents	10,397	6,490
School food services	39,842	38,561
Contributions	39,947	104,596
<b>Total revenues</b>	<u>2,620,961</u>	<u>2,274,743</u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	1,859,834	1,735,995
Supporting services:		
Operation and maintenance of facilities	227,208	209,459
Transportation	190,583	159,881
School food services	40,464	44,337
Capital outlay	8,954	138,636
Debt service:		
Principal retirement	7,719	17,202
Interest and fiscal charges	1,762	3,388
<b>Total expenditures</b>	<u>2,336,524</u>	<u>2,308,898</u>
<b>NET CHANGE IN FUND BALANCES</b>	284,437	(34,155)
<b>FUND BALANCES</b>		
Beginning of year	<u>120,579</u>	<u>154,734</u>
End of year	<u>\$ 405,016</u>	<u>\$ 120,579</u>

The accompanying notes are an integral  
 part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**

## RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balances-total governmental funds</b>	<b>\$ 284,437</b>	<b>\$ (34,155)</b>
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. These are the amounts by which depreciation either exceeded or was less than capital outlays for the periods reported.</p>		
	<u>2005</u>	<u>2004</u>
Capital Outlay	\$ ...	\$ 135,715
Depreciation Expense	<u>(36,737)</u>	<u>(45,994)</u>
	(36,737)	89,721
<p>Capital assets acquired by capital leasing arrangements are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.</p>		
	<u>2005</u>	<u>2004</u>
Principal payments on capital leases	\$ <u>7,719</u>	\$ <u>17,202</u>
	7,719	17,202
<p>In the statement of activities, certain operating expenses such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation payable increased by \$1,619 for 2005 and decreased by \$2,308 for 2004.</p>		
	<u>(1,619)</u>	<u>2,308</u>
<b>Change in net assets-governmental activities</b>	<b>\$ <u>253,800</u></b>	<b>\$ <u>75,076</u></b>

The accompanying notes are an integral part of the basic financial statements

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
STATEMENTS OF FIDUCIARY NET ASSETS-AGENCY FUND  
June 30, 2005 and 2004

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	<u>Student Activities Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and equivalents	\$ <u>39,186</u>	\$ <u>40,377</u>
<b>LIABILITIES</b>		
Due to student groups	\$ 19,988	\$ 7,616
Other current liabilities	<u>19,198</u>	<u>32,761</u>
<b>TOTAL LIABILITIES</b>	\$ <u>39,186</u>	\$ <u>40,377</u>

The accompanying notes are an integral  
part of the basic financial statements

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Sussex Academy of Arts and Sciences (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The basic financial statements include:  
  
Management's Discussion and Analysis (MD&A) providing an analysis of the School's overall financial position and results of operations.  
  
Financial statements prepared using full-accrual accounting for all of the School's activities.
- Change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Government-Wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund type:

- The **student activities agency fund** (a fiduciary fund) accounts for assets held on behalf of student groups.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

The general fund budget is adopted on the modified accrual basis of accounting; however, a budget is not prepared for the student activities fund.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Use of Estimates

The preparation of basic financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2005 and 2004, the School had no such activity.

Advances between funds, when present in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Leasehold improvements, and furniture and equipment of the School are depreciated using the straight-line method over their estimated useful lives ranging between 3 to 10 years.

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is received when employees (a) qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay not to exceed 120 days, or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 120 days.

Capital Lease Obligations

In the government-wide financial statements, capital lease obligations are reported as liabilities in the applicable statement of net assets.

In the fund financial statements, governmental fund types recognize the principal portion of the payments as expenditures. The face amount of the lease obligation is reported as other financing sources in the year the capital asset is leased.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

**NOTE 2 - CASH AND EQUIVALENTS**

At June 30, 2005 and 2004, the School has cash and equivalents of \$575,423 and \$278,204, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

The petty cash fund and student activity fund are in the custody of School officials. At June 30, 2005 and 2004, these deposits are held by one financial institution. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$39,575 and \$40,945 held by the financial institution were not in excess of FDIC limits, respectively, and therefore, there is no custodial credit risk for these deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005 follows:

Description	June 30, 2005			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,289	\$ ...	\$ ...	\$ 3,289
Furniture and equipment	278,794	...	...	278,794
Totals	282,083	...	...	282,083
Less accumulated depreciation:				
Leasehold improvements	795	329	...	1,124
Furniture and equipment	117,222	36,408	...	153,630
Totals	118,017	36,737	...	154,754
Total capital assets, being depreciated, net	\$ 164,066	\$ (36,737)	\$ ...	\$ 127,329



**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 3 - CAPITAL ASSETS** (continued)

Capital assets activity for the year ended June 30, 2004 follows:

Description	June 30, 2004			Ending Balances
	Beginning Balances	Increases	Decreases	
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,289	\$ ...	\$ ...	\$ 3,289
Furniture and equipment	143,079	135,715	...	278,794
Totals	146,368	135,715	...	282,083
Less accumulated depreciation:				
Leasehold improvements	466	329	...	795
Furniture and equipment	71,557	45,665	...	117,222
Totals	72,023	45,994	...	118,017
Total capital assets, being depreciated, net	\$ 74,345	\$ 89,721	\$ ...	\$ 164,066

**NOTE 4 - PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2005 and 2004 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension cost of \$115,930 for 2005 and \$78,917 for 2004 (State share) and \$16,904 for 2005 and \$31,662 for 2004 (local share) is included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
  - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
  - a. 15 years service-age 60
  - b. 30 years service-any age
  - c. 5 years service-age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five consecutive years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5 - LONG-TERM DEBT OBLIGATIONS**

The following is a summary of changes in long-term obligations:

Description	Year Ended June 30, 2005				
	Long-Term Obligations			Ending Balance	Due Within One Year
	Beginning Balance	Additions	Deletions		
<b>Governmental activity:</b>					
Capital leases:					
See Note 6 for detail	\$ 33,880	\$ ...	\$ 7,719	\$ 17,983	\$ 8,178
Other long-term debt:					
Compensated absences	4,507	1,619	...	6,126	...
<b>Total long-term debt</b>	<b>\$ 38,387</b>	<b>\$ 1,619</b>	<b>\$ 7,719</b>	<b>\$ 24,109</b>	<b>\$ 8,178</b>

Compensated absences for governmental activities are generally liquidated by the general fund.

**NOTE 6 - LEASING ARRANGEMENTS**

The School is involved in the following leasing arrangements:

Operating Leasing Arrangements

The School leases the School's facilities from Sussex Academy of Arts and Sciences, Inc. (an unrelated 501(c)(3) not-for-profit corporation) on a year-to-year basis. Total rental costs incurred are \$192,000 for 2005 and \$175,083 for 2004.

The School leases certain transportation and copier equipment under operating leasing arrangements expiring during fiscal year 2005. Total rental costs are \$11,503 for 2005 and \$11,503 for 2004.

Capital Leasing Arrangements

The summary of changes in the capital lease obligations follows:

Description	Year Ended June 30, 2005			
	Beginning Balances	Additions	Deletions	Ending Balances
Capital lease obligations:				
Copier Lease #1	\$ 16,064	\$ ...	\$ 3,665	\$ 12,399
Copier Lease #2	16,064	...	3,665	12,399
Copier/Scanner	1,752	...	389	1,363
<b>Totals</b>	<b>\$ 33,880</b>	<b>\$ ...</b>	<b>\$ 7,719</b>	<b>\$ 26,161</b>

The School leases certain copier equipment under capital leasing arrangements with varying dates through the year 2008. The assets and liability under these leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the capital assets. The capital assets are depreciated over their estimated useful lives using the straight-line method of depreciation. At June 30, assets held under capital leasing arrangements are \$114,722 for 2005 and \$114,722 for 2004, with the related accumulated depreciation of \$93,169 for 2005 and \$84,699 for 2004.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 6 - LEASING ARRANGEMENTS** (continued)

Capital Leasing Arrangements (continued)

At June 30, 2005, the future minimum lease payments under capital leasing arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

<u>Fiscal Years Ending June 30</u>	<u>Amount</u>
2006	\$ 9,480
2007	9,480
2008	<u>9,617</u>
Total future minimum lease payments required	28,577
Less: Amount representing interest portion	<u>2,416</u>
Present value of minimum lease payments	26,161
Less: Capital lease obligation due within one year	<u>8,178</u>
Capital lease obligation, noncurrent portion	<u>\$ 17,983</u>

Total interest expense incurred, all of which was charged to operations, was \$1,762 for 2005 and \$3,388 for 2004.

The interest rate on capitalized leasing arrangements is 5.957% and is imputed based on the lower of the School's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives federal assistance in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

Litigation

A complaint in the amount of \$10,715 plus interest is pending against the School. In the opinion of the School's management and legal counsel, the potential loss, if any, regarding the complaint is not yet determinable.

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 8 - REQUIRED PRIMARY GOVERNMENT DISCLOSURES**

The following are condensed government-wide financial statements as of and for the years ended June 30:

Description	2005	2004
	(in Thousands)	
Statement of Net Assets		
Current assets:		
Cash and equivalents	\$ 576	\$ 278
Other current assets	3	3
Total current assets	576	281
Noncurrent assets:		
Capital assets, net	127	164
Total assets	703	445
Liabilities:		
Accrued liabilities	171	160
Current portion of long-term debt	8	8
Total current liabilities	179	168
Noncurrent liabilities:		
Compensated absences	6	5
Notes payable	18	26
Total liabilities	203	199
Net assets:		
Invested in capital assets, net	101	130
Unrestricted	399	116
Total net assets	\$ 500	\$ 246
Statement of Activities		
Total expenses	\$ (2,367)	\$ (2,200)
Program revenues:		
Charges for services	40	39
Operating grants and contributions	136	109
Capital grants and contributions	40	105
Net (expenses) revenues	(2,151)	(1,947)
General revenues:		
Payments from primary government	2,395	2,016
Investment earnings	10	6
Total general revenues	2,405	2,022
Change in net assets	254	75
Net assets-beginning of year	246	171
Net assets-end of year	\$ 500	\$ 246

## **Required Supplemental Information (RSI) Section**

**SUSSEX ACADEMY OF ARTS AND SCIENCES****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-GENERAL FUND**  
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Charges to school districts	\$ 402,500	\$ 471,123	\$ 471,264	\$ 141
State aid	1,746,180	1,769,474	1,923,096	153,622
Federal aid	50,000	72,750	136,415	63,665
Earnings on cash and equivalents	...	...	10,397	10,397
Other local sources	...	...	39,842	39,842
Contributions	...	...	39,947	39,947
<b>Total revenues</b>	<b>2,198,680</b>	<b>2,313,347</b>	<b>2,620,961</b>	<b>307,614</b>
<b>EXPENDITURES</b>				
Current:				
Salaries	1,071,997	1,080,333	1,085,139	(4,806)
Employment costs	399,566	432,522	406,334	26,188
Travel	30,000	15,000	20,142	(5,142)
Contracted services	84,000	99,000	149,931	(50,931)
Communications	15,000	15,000	6,917	8,083
Public utility services	50,000	60,000	30,010	29,990
Insurance	25,000	25,000	18,721	6,279
Transportation-buses	222,180	190,000	190,583	(583)
Land/Building/Facilities	210,000	210,000	192,000	18,000
Repairs and maintenance	15,000	20,000	5,198	14,802
Other contractual services	61,300	73,615	6,232	67,383
Supplies and materials	64,637	100,000	60,826	39,174
Operating supplies	...	...	81,917	(81,917)
Computer/Word Processing/Software	35,000	35,000	64,139	(29,139)
Capital outlay:				
Equipment	...	...	8,954	(8,954)
Debt service:				
Principal retirement	...	...	7,719	(7,719)
Interest and fiscal charges	...	...	1,762	(1,762)
Contingency	...	62,877	...	62,877
<b>Total expenditures</b>	<b>2,283,680</b>	<b>2,418,347</b>	<b>2,336,524</b>	<b>81,823</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(85,000)</b>	<b>(105,000)</b>	<b>284,437</b>	<b>389,437</b>
<b>FUND BALANCES</b>				
Beginning of year	85,000	105,000	120,579	15,579
End of year	\$ ...	\$ ...	\$ 405,016	\$ 405,016

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2005.

See Accompanying Report of Independent Auditor

## **Additional Information**

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
BALANCE SHEETS-GENERAL FUND  
June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>ASSETS</b>								
Cash and equivalents	\$ 26,966	\$ 548,457	\$ ...	\$ 575,423	\$ 7,692	\$ 270,512	\$ ...	\$ 278,204
Prepaid expenses	...	...	...	...	...	2,778	...	2,778
<b>TOTAL ASSETS</b>	<u>\$ 26,966</u>	<u>\$ 548,457</u>	<u>\$ ...</u>	<u>\$ 575,423</u>	<u>\$ 7,692</u>	<u>\$ 273,290</u>	<u>\$ ...</u>	<u>\$ 280,982</u>
<b>LIABILITIES</b>								
Accounts payable	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Accrued salaries and related costs	...	170,407	...	170,407	...	160,403	...	160,403
<b>Total liabilities</b>	<u>...</u>	<u>170,407</u>	<u>...</u>	<u>170,407</u>	<u>...</u>	<u>160,403</u>	<u>...</u>	<u>160,403</u>
<b>FUND BALANCES</b>								
Reserved for encumbrances	...	166	...	166	...	166	...	166
Unreserved	26,966	377,884	...	404,850	7,692	112,721	...	120,413
<b>Total fund balances</b>	<u>26,966</u>	<u>378,050</u>	<u>...</u>	<u>405,016</u>	<u>7,692</u>	<u>112,887</u>	<u>...</u>	<u>120,579</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 26,966</u>	<u>\$ 548,457</u>	<u>\$ ...</u>	<u>\$ 575,423</u>	<u>\$ 7,692</u>	<u>\$ 273,290</u>	<u>\$ ...</u>	<u>\$ 280,982</u>

See Accompanying Report of Independent Auditor



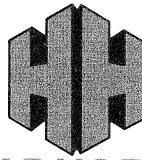
**SUSSEX ACADEMY OF ARTS AND SCIENCES**

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GENERAL FUND  
Years Ended June 30, 2005 and 2004

	2005				2004			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>REVENUES</b>								
Charges to school districts	\$ ...	\$ 471,264	\$ ...	\$ 471,264	\$ ...	\$ 399,298	\$ ...	\$ 399,298
State aid	1,895,585	27,511	...	1,923,096	1,616,547	...	...	1,616,547
Federal aid	...	...	136,415	136,415	...	...	109,251	109,251
Earnings on cash and equivalents	...	10,397	...	10,397	...	6,490	...	6,490
School food services	...	39,842	...	39,842	...	38,561	...	38,561
Contributions	...	39,947	...	39,947	...	104,596	...	104,596
<b>Total revenues</b>	<b>1,895,585</b>	<b>588,961</b>	<b>136,415</b>	<b>2,620,961</b>	<b>1,616,547</b>	<b>548,945</b>	<b>109,251</b>	<b>2,274,743</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	914,080	139,712	31,347	1,085,139	708,646	283,509	54,836	1,046,991
Employment costs	349,502	49,333	7,499	406,334	248,337	92,527	14,310	355,174
Travel	3,653	6,169	10,320	20,142	1,180	5,111	5,068	11,359
Contracted services	106,839	10,807	32,285	149,931	174,637	4,323	25,050	204,010
Communications	6,708	209	...	6,917	6,574	473	2,656	9,703
Public utility services	29,212	798	...	30,010	26,622	2,085	...	28,707
Insurance	...	18,721	...	18,721	...	24,295	...	24,295
Transportation-buses	190,583	...	...	190,583	159,881	...	...	159,881
Land/Building/Facilities	192,000	...	...	192,000	175,873	...	...	175,873
Repairs and maintenance	5,198	...	...	5,198	4,879	...	...	4,879
Other contractual services	2,198	...	4,034	6,232	7,355	8	...	7,363
Supplies and materials	12,227	40,891	7,708	60,826	6,058	14,985	6,092	27,135
Operating supplies	49,738	32,179	...	81,917	42,710	30,230	498	73,438
Computer/Word Processing/Software	...	24,979	39,160	64,139	20,864	...	...	20,864
Capital outlay:								
Equipment	4,892	...	4,062	8,954	4,649	133,246	741	138,636
Debt service:								
Principal retirement	7,719	...	...	7,719	17,202	...	...	17,202
Interest and fiscal charges	1,762	...	...	1,762	3,388	...	...	3,388
<b>Total expenditures</b>	<b>1,876,311</b>	<b>323,798</b>	<b>136,415</b>	<b>2,336,524</b>	<b>1,608,855</b>	<b>590,792</b>	<b>109,251</b>	<b>2,308,898</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>19,274</b>	<b>265,163</b>	<b>...</b>	<b>284,437</b>	<b>7,692</b>	<b>(41,847)</b>	<b>...</b>	<b>(34,155)</b>
<b>FUND BALANCES</b>								
Beginning of year	7,692	112,887	...	120,579	...	154,734	...	154,734
End of year	\$ 26,966	\$ 378,050	\$ ...	\$ 405,016	\$ 7,692	\$ 112,887	\$ ...	\$ 120,579

See Accompanying Report of Independent Auditor

**Reports Required by  
Government Auditing Standards**



**HAGGERTY & HAGGERTY, P.A.**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the School Board Members  
**Sussex Academy of Arts and Sciences**  
Georgetown, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sussex Academy of Arts and Sciences as of and for the year ended June 30, 2005, which collectively comprise Sussex Academy of Arts and Sciences' basic financial statements and have issued our report thereon dated August 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sussex Academy of Arts and Sciences' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sussex Academy of Arts and Sciences' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

  
Certified Public Accountants

August 15, 2005  
Wilmington, Delaware

**SUSSEX ACADEMY OF ARTS AND SCIENCES**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2005

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**SUMMARY OF ACCOUNTANTS' RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Sussex Academy of Arts and Sciences.
2. No material reportable conditions were identified during the audit of the financial statements of Sussex Academy of Arts and Sciences.
3. No instances of noncompliance material to the basic financial statements of Sussex Academy of Arts and Sciences were disclosed during the audit.

**FINDINGS-FINANCIAL REPORTING**

None.

**FINDINGS-COMPLIANCE AND OTHER MATTERS**

None.